



State of Washington
Department of Revenue

Excise Tax Advisory

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TAXABILITY OF INTEREST FROM PARTICIPATION LOANS

Issued July 17, 1974

Is interest collected by one financial institution for another to which it sold an undivided interest in a loan taxable to the former institution?

Restated, the question is: In a participating loan situation must the collecting institution pay business and occupation tax on that portion of the interest collected for the participating institution? For purposes of this excise tax bulletin, a participation loan is a loan or portion thereof sold by one financial institution to another.

The Department holds that in the situation described above, if the contract between the borrower and the lending institution authorizes the institution to sell or assign the loan, the institution acts merely as a conduit in collecting the assigned interest. Thus, the assigned interest is not income to the lending institution and is, therefore, taxable only to the assignee.

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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